

11 APR 1980

MEMORANDUM FOR: Deputy Director for Administration

FROM: James H. McDonald
Director of Logistics

SUBJECT: Fiscal Problems Facing OL

REFERENCES: A. Memo for C/MS/DDA from A-D/L dtd 7 Mar 80, Subject: Office Overview for the Fiscal Year 1982 Program-Budget Call (OL 0 1059)

B. Mtp1 Adsee Memo from C/MS/DDA dtd 28 Mar 80, Subject: "Hard" 1980 Unfunded Requirements (DDA 80-0818, OL 0 1477)

C. Memo for C/MS/DDA from C/B&FB/OL dtd 10 Apr 80, Subject: Fiscal Year 1980 Unfunded Requirements (OL 0 1668)

1. In a recent memorandum to you, I described the key challenges facing the Office of Logistics (OL) in the decade ahead: capital investment, energy (and materiel) conservation, information handling, and personnel utilization. Of these, a failure to conserve sufficient energy and materiel to offset escalating prices has already led to a fiscal shortfall approaching \$1M in FY 1980 (quantified in Reference C), with catastrophic shortfalls predicted for FY 1981 if additional funds are not made available or drastic steps towards conservation taken. Unfortunately, such steps would require a reduction in logistics services to levels which would be unacceptable to most Agency offices unless they were totally supported by you and the DDCI. This memorandum briefly describes the problem and alternatives for its solution and solicits your support in a recommended course of action.

2. A failure to conserve sufficient energy and materiel to offset escalating prices has impacted on the OL budget primarily in the areas of transportation and printing and photography. Each will be described:

OL 0 1680

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a. In the transportation area, the number of personnel and amount of materiel moved have remained relatively unchanged in recent years, but the cost of vehicle fuel increased over 100 percent during the last year alone. Although we have met the President's goals for fuel conservation (in terms of gallons used), these savings have had little impact when compared to the increased cost of fuel. As a result, actual fuel costs greatly exceed amounts budgeted. This situation is illustrated in Attachment 1 using our motor pool service as an example, while Attachment 2 cites recent increases in the cost of materiel transportation.

b. Regarding materiel conservation, this burden falls primarily on printing and photographic products since they, too, have experienced dramatic cost increases in the last year. The printing and photography area is one of the few which has, in recent years, received sufficient capital investment to significantly increase productivity without any increase in personnel. However, as the capacity of the plant has increased, Agency components quickly seized the opportunity to increase the number, length, and sophistication of their publications and new programs in the areas of public affairs, and unclassified public issuances were initiated. As an example, NFAC increased its intelligence production reports by 64 percent during FY-79, and unclassified NFAC issuances from January 1978 to September 1979 totaled 458 compared to only 282 for the prior six years. At the same time, the resources used in these publications, particularly paper and photographic films and chemicals, escalated in cost due to resource shortages, lack of capital investment in production plants, and, in some cases, the dramatic increase in the cost of petrochemical ingredients of the final product. When combined, these trends have resulted in actual materiel costs far in excess of amounts approved in our budgets. Attachment 3 graphically illustrates this point.

3. Additional funding or a reduction of services are the two most obvious courses open to us in surmounting these problems:

a. Additional funding, over the next several years and into the future, will probably be limited. Traditionally, such funding has been provided by internal reprogramming or year-end funding at the DDA level. Internal

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reprogramming is most frequently from engineering support (reimbursable utility and other services from GSA), but this source is quickly drying-up as escalating fuel costs overtake previously budgeted amounts. Other services such as the Executive Dining Room could be totally eliminated, providing additional funding; but this proposal and others like it have never found acceptance, primarily because of the impact on personnel morale. Hence, internal reprogramming will be of limited value this year and of no value next year. The other option, year-end funding by the DDA, may provide some relief but is unlikely to cover the totality of existing and anticipated shortfalls.

b. A reduction of services, no matter how unpalatable, seems certain--if not this year, then next. In the printing and photography area, the number and size of publications can be reduced, but at what price in terms of service to NFAC customers and our own personnel? Like it or not, we are at that point. Similarly, the cost of transporting materiel can be reduced through greater sea and truck service rather than air--but, again, at what price in responsiveness? Like it or not, that choice will have to be made over the next year or two if additional money isn't forthcoming. Similar reductions in motor pool services could be made, but at what cost to Intelligence Community coordination and service? Also implicit in limited funding and a concurrent reduction in services is a lack of sufficient funding to make those capital investments which will increase productivity or responsiveness. While the impact of this latter decision may be several years away, its effect may be the most far-reaching and damaging of all.

4. In view of the above, I recommend that you immediately:

a. Seek DDCI approval to transfer additional monies from the other Directorates which, as primary users, should pay their fair share of escalating printing, photography, and transportation costs; i.e., increase the DDA budget vis-à-vis the other Directorates since we bear the major burden of energy and materiel inflation.

b. Failing this:

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(1) As previously recommended by the IG to the DDCI, form an Agency-wide task force to review and prioritize all Agency publications, with a view towards eliminating those of lowest priority, while taking action to ensure that xerographic processes are not substituted therefor.


(2) Initiate within two years a "charge-back" system for all publications, thereby providing a cost incentive to reduce publication.

(3) Maintain the present level of Agency shuttle service while severely restricting the use of "U-drive-it" vehicles and POV reimbursable mileage.

(4) Establish as a goal a reduction in worldwide air freight of 10 percent over the next year even if temporary, decreased responsiveness results.

5. If these actions are taken but still fail to generate adequate savings, then more drastic measures will be necessary. For example, approximately \$800,000 per year could be generated simply by freezing all OL-funded office moves and associated renovation work in the Metropolitan Washington Area. Even greater savings would result if renovations funded directly by other Agency components were included as well.

6. Please advise your desires in this matter so we can initiate action on those recommendations approved by you.


James H. McDonald

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Attachments:

1. Motor Pool Statistics
2. Worldwide Transportation
Cost Increases
3. P&PD Statistics

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RECOMMENDATIONS: _____

APPROVED:

Deputy Director for Administration

Date

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